RESERVE BANK OF MALAWI

BUDGETING

Personal Money Management Skills

It is important for individuals to manage their personal finances properly. Individuals need to evaluate how they are living by analysing their cash flows.

Understanding Cash Flow

- Cash flows describes the movement of an individual's money; the money coming in and the payments going out
- Whilst most people know all their cash inflows, the majority of people do not know how much and where they spend their money on
- It is important to know where you spend and how much you spend your money on a particular item for you to make the necessary adjustments
- It is only when you know that is when you can make the adjustments
- Before you can create a budget, or spending plan, for the future, you need to evaluate how you're living now by analysing your cash flow
- Whether your cash flow is positive or negative, it has a big impact on your ability to meet your financial goals
- Positive cash flow means that your annual expenses are less than your income. For example, if your salary is MK50, 000 and you spend MK45, 000 over the course of the year, you have a positive cash flow of MK5, 000
- At a minimum, you're able to pay your bills, cover small unexpected expenses, and still have enough money left over to pay for some of the things you enjoy.
- On the other hand, if you spend MK55, 000, you have a negative cash flow of MK5, 000. You may find yourself spending all your income on unplanned purchases and never really being able to get ahead. If you have a negative cash flow, you can't save for the future or pay down any debt you may have.
- The longer your cash flow is negative, the larger the problem grows. The good news is that if you recognize this situation soon enough, you will be able to take steps to address the way you're managing your finances before it impacts the future you want.

- Over the long term, positive cash flow can help improve the likelihood that you will be able to pay for your long-term financial goals, such as buying a house or enjoying a comfortable retirement.
- Creating and sticking to a budget is an important and effective first step in gaining control of your finances and staying in control.

An important tool that helps people manage their cash flows is a **Budget.**

What is a budget?
- It is a plan on how to spend your money.
- A budget will help you to determine, well in advance, whether you will have enough or insufficient money to buy or pay for your expenses.

- Budgeting is simply balancing your expenses with your income. If they don't balance and you spend more than you make, you will have a problem.
- If you don't have enough money to do everything you would like to do, then you can use this planning process to prioritize your spending and focus your money on the things that are most important to you.

Why budget?
- A budget ensures that you are always spending on things most important to you.
- Convince yourself that the money you earn is put into best use through the budget.
- Since budgeting allows you to create a spending plan for your money, it ensures that you will always have enough money for the things you need and the things that are important to you.
- Following a budget or spending plan will also keep you out of debt or help you work your way out of debt if you are currently in debt.

Things to consider when coming up with a Budget:
- In order to draw a budget, you must know how much money you have coming in and how you want to spend that money during a set period of time.

- **Income** is usually the money that comes into the household be it in the form of a salary, business profits, remittances from relations, social cash transfers and donations.
- **Personal Expenses** financial obligations that households have to meet in the course of their lifetime.

Expenses are anything you spend your money on.

- These include but are not limited to:
  - Food expenses
  - Rent
  - Medical expenses
  - School fees (preferably a monthly calculation)
  - Clothing
  - Savings
  - Investment
  - House construction/repair
  - Debt repayments
  - Travel costs

Steps in coming up with a Budget

- Before you can begin making decisions about how much of your income you will allocate to pay for the various expenses you have, you need to know the details of your current spending
- One approach is to examine your bank statements, receipts, and credit card bills from the past year
- Another approach is to keep a written record of everything you spend for a couple of months
- Recording every purchase you make (probably in a small notebook you carry around with you) may make it easier to keep track of where you are spending your money
- Once you have a thorough understanding of your current spending patterns, you'll be better equipped to make decisions about how you can alter them so that you're on track for meeting your future financial goals.

Summary steps in coming up with a Budget

1. Review your financial goals
2. Estimate amount of income by source.
3. List all expenses and amount needed for each expense.
4. Decide how much you will save
4. Make sure your expenses do not exceed your income.
6. Review and adjust as needed.